Getting to Yes: Anticipating and Responding to Your Lender’s Concerns

Illinois Community College Chief Financial Officers
2012 Fall Conference
Presentation by
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Wintrust Government Funds
Presentation Focus

• Assist CFOs who may be seeking bank credit
• Suggest when bank financing may be appropriate
• Clarify roles of community banks, advisors and bond underwriters
• Share a lender’s perspective in evaluating credit requests and managing relationships
• Identify and address lender’s “red flags”
• Suggest approaches for generating more competitive bids
My Perspective

Vice President, Municipal Lending
Wintrust Government Funds

Lends to, and buys bonds issued by, colleges and other units of local government on behalf of Wintrust Community Banks

Wintrust Financial is a financial services holding company with over $16 billion in assets, 15 bank charters and over 100 locations in Chicagoland and southern Wisconsin.

Previously served as a lender and relationship manager to local, state and federal government agencies at a money center commercial bank.
# Community College Financing Options

<table>
<thead>
<tr>
<th>Size</th>
<th>Big ($20MM &amp; Over)</th>
<th>Medium ($5 to $20MM)</th>
<th>Small ($0.1 to $5MM)</th>
<th>Small ($0.1 to $5MM)</th>
<th>Interim</th>
</tr>
</thead>
<tbody>
<tr>
<td>Form</td>
<td>Bond Issue</td>
<td>Bond Issue</td>
<td>Bond Issue</td>
<td>Bank loan</td>
<td>Bank Loan</td>
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<tr>
<td>Funder</td>
<td>Institutions</td>
<td>Institutions</td>
<td>Institutions</td>
<td>Bank</td>
<td>Banks or Institutions</td>
</tr>
<tr>
<td>Players</td>
<td>National &amp; Regional Investment Banks</td>
<td>Regional Investment Banks</td>
<td>Regional &amp; Local Investment Banks</td>
<td>Regional &amp; Community Banks</td>
<td>Community &amp; Investment Banks</td>
</tr>
<tr>
<td>Terms</td>
<td>To 30 Years</td>
<td>To 30 Years</td>
<td>To 30 Years</td>
<td>To 10 Years</td>
<td>To 3 Years</td>
</tr>
<tr>
<td>Advantages</td>
<td>Interest Rates</td>
<td>Interest Rates</td>
<td>Interest Rates</td>
<td>Issuance Costs, Speed</td>
<td>Issuance Costs, Speed</td>
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<tr>
<td>Drawbacks</td>
<td>Issuance Costs, Speed</td>
<td>Issuance Costs, Speed</td>
<td>Issuance Costs, Speed</td>
<td>Rates &amp; Term</td>
<td>Rates &amp; Term</td>
</tr>
</tbody>
</table>
## Sorting Out the Relationships Between Finance Participants

<table>
<thead>
<tr>
<th>Participants</th>
<th>Likes</th>
<th>Dislikes</th>
<th>Interests Shared with Banks</th>
<th>Interest Shared Diverge from Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Banks</td>
<td>Profitable, multi-product relationships</td>
<td>Low-returning, risky loans (term &amp; credit)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Advisors</td>
<td>Completed financings</td>
<td>Failed financings</td>
<td>More bidders Structures offerings</td>
<td>More competition</td>
</tr>
<tr>
<td>Investment Bankers</td>
<td>Completed, profitable financings</td>
<td>Failed or unprofitable financings</td>
<td>May refer requests and bonds</td>
<td>Competes for some requests</td>
</tr>
</tbody>
</table>
Understanding a Typical Lender

• Lender Motivations:
  – Financing Goals (volume and interest margin)
  – Relationship Goals (new and expanding)
  – Managing Time
  – Avoiding Mistakes and Bad Loans

• Lender Pressure
  – Reduced support
  – More relationships and less specialization
  – Increased performance standards
When Bank Loans May be Best

- Smaller financings (such as GO Limited Tax Bonds, equipment financings)
- Shorter and Interim financings (bridge loans, working capital loans)
- “Story” financings for turn around or complex situations

Bank loans may be less advantageous for larger, longer and highly rated credits.
Common Concerns in Responding to Government Loan Requests

• Will the loan terms fit my institution’s profile?
  – Amount, term, interest rate, tax-status etc.

• Can the bank earn a return on the loan?

• Is there an opportunity to develop a multi-product relationship in the near-term?

• Are loans to colleges wise today?

• How are lenders assured of repayment?

• How should the financial reports be evaluated?
What You Should Know About Lenders

Many lenders:

• Do not have government lending experience
• May need help in sorting out Illinois government news stories
• Don’t realize that government loans may be a bank’s safest loans today
• Don’t realize that many colleges and other government entities are very prudently run
Community College Credit Strengths

• The default rate of loans to public colleges and other governments is extraordinarily low
• Property taxes subsidize the operations and secures the debt of many Illinois community colleges
• Community college should remain vital to educating young adults and retraining older adults
• Community college enjoy sizable cost advantages over other educational institutions
• Community colleges’ value is increasingly recognized by business, government and the public
Prospective borrowers should be prepared to address common “red flags”, such as:

- Defaults (technical and payment) on any debt
- Nonpayment of a lease or moral obligation pledge
- Employee embezzlement or fraud
- Operating deficits persisting for 2 or more years
- Material decrease in property taxes or intergovernmental revenues
- Decline in liquidity and/or an increase in working cash borrowing, if material

Explain why it occurred and how it is being addressed.
Ideas for Generating Stronger Bids

• Solicitation Preparation: Your request should be clear and complete, with a reasonable deadline, links to financial reports and offering statements and a contact for questions.
• Anticipate and Address Lender Credit Concerns
• Ask Your Bank to Respond
• Identify Other Banks that lend to area colleges
• Consider Offering Other Business to Bidders
• Highlight Projects that May be Eligible for Community Reinvestment Act Credit
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